

SECRET

SENIOR INTERDEPARTMENTAL GROUP-INTERNATIONAL ECONOMIC POLICY

11:00 a.m.

November 23, 1983

Indian Treaty Room, Room 474, OEOB

Participants:

TreasurySecretary Regan, Chairman
Marc LelandUSTRAmbassador Brock
Harvey BaleStateW. Allen Wallis
Dennis LambCabinet Affairs

Larry Herbolsheimer

DefenseDavid Shilling
Dave TarbellOPD

Roger Porter

AgricultureRichard Lyng
Daniel AmstutzCEA

Martin Feldstein

Commerce

Lionel H. Olmer

AIDM. Peter McPherson
Richard DerhamONBDavid Stockman
Alton G. KeelEx-Im BankWilliam Draper
Raymond AlbrightCIANSC

William Martin

25X1

Export Credits and International Debt

The Chairman introduced the first agenda item on export credits and international debt. Marc Leland reviewed the highlights of an IG report on the role U.S. Government trade finance programs might play in responding to countries experiencing extraordinary liquidity problems. In particular, the report examines existing programs of the Export-Import Bank, Commodity Credit Corporation (CCC), the Economic Support Fund (ESF), and the Foreign Military Sales program (FMS) to determine how they can be adapted to support efforts to address extraordinary individual LDC debt problems. The paper concludes these programs should continue to be used in extending extraordinary financing to respond to the LDC debt crisis. The paper also notes that we should take precautions to ensure that Eximbank and CCC programs are reasonably assured of repayment before approving a transaction.

SECRET

NSC review completed.

DECLASSIFY ON: OADR

-2-

Marc Leland asked that the SIG-IEP bless the paper and that a budget review meeting be called promptly to review the budget levels for CCC and Eximbank. David Stockman took strong exception to the paper and the procedure outlined. He noted that these programs were generally out of control and that there was no reasonable rationale for funding even more credits and at the same time argue so strenuously for further domestic spending cuts. He noted that an extraordinary budget meeting was not necessary. This matter could be handled within the normal review process meeting with the President now scheduled for December. Furthermore, he emphasized that we did not have adequate means to assess the ability of the debtor nations to repay loans. Ambassador Brock also noted the problems with the Hill with extending more credits. Considerable political capital had been used to fund the Administration's request for higher levels of support for the IMF.

The Chairman noted that there are important national security concerns for providing credits for strategically valuable allies. He noted that the NSC had requested tailor made financing packages to assist Mexico, Brazil, the Philippines and Jamaica. He agreed with OMB that the IG should further consider the issue of repayment.

During the discussion, the State Department, AID, Agriculture and NSC representatives noted their support for the general conclusions of the paper.

IDA VII

The Chairman then introduced the next agenda item, U.S. participation in IDA VII. The IDA VII negotiations began in November 1982, for the purpose of arranging financing for IDA operations in the period after July 1, 1984. Negotiations are now at a decisive state. The key issue for SIG consideration was the level of U.S. participation. Since December 1981, the budget has included \$750 million as the out year planning number for future U.S. contributions to IDA. This level of funding has been widely criticized by other countries, although a number of other donors also have budgetary constraints. Under Secretary Wallis noted that Secretary Shultz believes that a U.S. contribution on the order of \$950 million would be desirable. AID concurs with this view. Most other SIG-IEP participants argued strongly that this is unrealistic given the political realities on the Hill. The Administration expended enormous effort to increase the size of our contribution to the IMF, and a level of \$750 million annually for IDA will be very hard to achieve. The Chairman concluded the discussion by mandating that an issue paper be prepared for the NSC laying out the options and implications.

SECRET